Fix It, Episode II: In the second "episode" of our saga on fixing our problems and bringing America a new period of growth and optimism, I will address an issue that none of you will be surprised to see me tackle - the debt and deficit. Since I was first elected to the California State Assembly in 2000, trying to get government to tax, spend and waste less has been a major priority for me. As such, you have heard a lot from me on this issue. So, I will not repeat much of what I have said incessantly for years so that I don't become electronic Ambien for you.

Instead, let me put this problem/opportunity in the context of the larger issue we are talking about. Implementing a plan to gradually fix our deficits and reduce our debt is a necessary but not sufficient condition for growth. Fixing the deficit will not in and of itself free the economy for sustained prosperity. There are other things we have to do that I will write about in future episodes. Suffice it to say, fixing the deficit is not a sufficient condition. But, it is a necessary one. If we *don't* do it, we will certainly bring on a crisis which will plunge us into a long and deep recession. By definition, that means negative growth such that fixing health care and energy and other areas are unlikely to rescue us from the economic collapse of a debt crisis. I have described how and why this will occur in the past, but for a contemporary example one need only look at Greece.

The Greek example is instructive in another way. Because they waited until a crisis was upon them to deal with their deficits, they have had to fix a deficit the size of ours, in relative terms, in just one year. That required huge tax increases and spending cuts all at once. That shocked an already fragile economy and they now have a GDP contraction larger than anything we experienced even in 2008/2009. This is why trying to balance a budget deficit that has grown as large as ours too quickly is actually a bad idea and can retard growth rather than enable it. We need to immediately implement a plan to balance our budget, but that plan should do the balancing over 5 to 10 years. This will give markets the confidence that the problem is solved, but not shock the economy by pulling too much out of it too quickly.

Over the next 2 weeks, Republicans in the House will pass a budget that reduces the deficit from $1.2 trillion this year to $800 billion next year, and roughly $200 billion by the end of the decade. That should do the trick because economic growth (which cannot now be projected very high) will probably make up that other $200 billion and get us surpluses. The conservative Republican Study Committee will propose another budget which will balance even without more growth within 10 years. But unfortunately, the Republican budget will pass with few, if any, Democratic votes and will never be taken up in the Senate. And, the Study Committee budget will fail because all Democrats and a number of Republicans will oppose it.

Not only does the President's budget never balance, it actually worsens the deficit more than any budget proposed by anyone to date. The Senate Democrats have not even proposed a budget in 3 years and will not likely do so this year. The only bipartisan solution that is out there is the Simpson-Bowles report released in late 2010. That plan moves the budget towards balance at a slightly slower pace than the Republican budget and does so in a different fashion.

Whether it is the Republican budget (so-called Paul Ryan budget) or Simpson-Bowles, there are many ways to get this done over time. In my opinion, we need to start with one of these and build a bipartisan solution from there that will balance over 10 years, including growth. As unlikely as that may seem in today's political climate, it can be done both politically and economically. And, it must be done. I wish I could tell you that this can happen before the election, but we all know that is not true. However, the groundwork can be laid this year to get right on it after the election. You can be assured that this member of Congress will be laying some of that groundwork.

Unrelated Tidbit: During the writing I'm doing in our "Fix It" saga, the world moves on. I can't observe all of it without a comment or two. Here's one for this week. Isn't it interesting that President Obama has rejected the Keystone pipeline, oil in Alaska, shale oil in the Dakotas and California, Gulf of Mexico and other offshore oil - all the time saying that this additional supply will not really affect gasoline prices. But yet, last week, he made further comments that he might release the US Strategic Petroleum Reserve because the additional supply will lower gas prices. Huh? So, a temporary, one-time, small supply increase will lower prices, but a permanent, enormous and consistent supply increase will have no effect? Maybe Harvard College needs some new economics professors. Or, perhaps Mr. Obama was not paying attention in class that week........

Next week: Episode III. (Just pretend it's Mad Men or something)